

## Message Text

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TAGS: ETRD, ECON, HU

SUBJ: HUNGARY'S TRADE BALANCE DURING FIRST NINE MONTHS  
OF 1974

VIENNA FOR EWTC AND AGRICULTURE ATTACHE'

1. SUMMARY: RECENTLY RELEASED OFFICIAL STATISTICS SHOW  
MARKED DETERIORATION IN HUNGARIAN BALANCE OF TRADE POSITION  
DURING FIRST NINE MONTHS OF 1974. IN FIRST THREE QUARTERS  
OF YEAR, HUNGARY IN TRADE FOR HARD CURRENCY REGISTERED  
DEFICIT OF 4.15 BILLION DEVISA FORINTS (DFT) (APPROX  
\$455 MILLION) WHEN CHARGES FOR FREIGHT ARE INCLUDED. BY  
COMPARISON DURING FIRST NINE MONTHS OF 1973, HUNGARIAN  
DEFICIT IN ITS HARD CURRENCY TRADE WAS RELATIVELY MODEST  
478 MILLION DFT (\$52.5 MILLION). ALTHOUGH HUNGARY HAS  
TRADITIONALLY TURNED IN STRONG TRADE PERFORMANCE DURING  
LAST QUARTER OF YEAR DUE TO SLOWDOWN OF IMPORTS AND HEAVY  
AGRICULTURAL HARD CURRENCY SALES, CHANGES OR SIGNIFICANT  
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IMPROVEMENT IN FINAL QUARTER OF 1974 APPEAR DIMMER THIS

YEAR AND DEPUTY MINISTER OF FOREIGN TRADE, GYULA KOVACS, RECENTLY STATED THAT "NO MAJOR CHANGES APPEAR LIKELY DURING REMAINDER OF YEAR". END SUMMARY.

2. PRINCIPAL CAUSE FOR SOFTENING OF HUNGARIAN TRADE POSITION HAS BEEN UPSURGE IN HARD CURRENCY IMPORTS WHICH ROSE BY 65 PERCENT THUS FAR IN 1974 TO A TOTAL OF 17.1 BILLION DFT (\$1.83 BILLION), WHILE HARD CURRENCY EXPORTS ROSE ONLY 32.3 PERCENT. ACCORDING TO KOVACS, FOUR-FIFTHS OF THE INCREASE IN IMPORTS HAS BEEN AS A RESULT OF HIGHER PRICES RATHER THAN INCREASED VOLUME. HUNGARIAN DEPENDENCE ON HARD CURRENCY IMPORTS TO COVER ITS NEEDS FOR CHEMICAL MATERIALS, FERTILIZERS, PESTICIDES, METALLURGICAL PRODUCTS, AND ANIMAL FEED, AND ABOUT 15 - 20 PERCENT OF CRUDE OIL IMPORTS, HAS MADE IT PARTICULARLY VULNERABLE TO THE GENERAL RISE IN WORLD MARKET PRICES. DURING FIRST NINE MONTHS OF YEAR HARD CURRENCY PURCHASES OF RAW MATERIALS AND SPARE PARTS JUMPED 75 PERCENT, MACHINE IMPORTS WERE UP 41 PERCENT, FOODSTUFFS AND AGRICULTURAL PRODUCT PURCHASES ROSE 56 PERCENT WHILE NON-RUBLE OIL IMPORTS, UP 30 PERCENT IN VOLUME, ROSE 350 PERCENT IN VALUE. AT THE SAME TIME PRICES FOR HUNGARIAN EXPORTS HAVE RISEN AT A CONSIDERABLY SLOWER RATE AND BEEF EXPORTS WHICH WERE MOST IMPORTANT ELEMENT IN HUNGARY'S STRONG 1973 TRADE PERFORMANCE, WERE DOWN 30 PERCENT OVER LAST YEAR WHILE REVENUES FROM BEEF SALES WERE ONLY 53 PERCENT AS HIGH. (A LARGE PORTION OF THESE HARD CURRENCY BEEF SALES HAVE BEEN TO THE SOVIET UNION WHICH HAS ALREADY TAKEN DELIVER OF 42,000 HEAD OF LIVE CATTLE, AND 48,700 TONS OF SLAUGHTERED BEEF.)

3. IN RUBLE TRADE WITH CEMA PARTNERS, THIRD QUARTER STATISTICS SHOW THAT LARGE POSITIVE BALANCE OF TRADE WHICH DISTURBED HUNGARIAN PLANNERS LAST YEAR HAS LARGELY VANISHED. DURING JAN-SEPT PERIOD HUNGARY IMPORTED 17.9 BILLION DFT WORTH OF PRODUCTS IN RUBLE TRADE WHILE EXPORTING A TOTAL OF 18.7 MILLION DFT. HOWEVER, WHEN 473 MILLION DFT DEFICIT FOR TRANSPORTATION SERVICES FIGURED IN, SURPLUS FOR NINE MONTH PERIOD RELATIVELY SMALL 331 MILLION DFT AS COMPARED TO 2.22 BILLION DFT FIGURE RECORDED DURING COMPARABLE PERIOD LAST YEAR. HIGHER HUNGARIANS IMPORTS OF CEMA MACHINERY AND CAPITAL GOODS, WHICH WERE AIDED BY FAVORABLE LIMITED OFFICIAL USE

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CREDIT TERMS TO PROSPECTIVE BUYERS ROSE 39 PERCENT, AND 20 PERCENT QUARTER PURCHASES OF CONSUMER GOODS, SUCH AS AUTOMOBILES WERE LARGELY RESPONSIBLE FOR THIS SHIFT.

4. IN RECENT ROUND TABLE DISCUSSIONS ON QUESTION OF WORSENING TRADE BALANCE, KOVACS STATED THAT HUNGARIAN TERMS OF TRADE HAVE DETERIORATED TO POINT WHERE ONE UNIT OF DOLLAR EXPORTS BUYS 13 PERCENT LESS IMPORTS THAN ONE YEAR AGO.

AT SAME DISCUSSIONS, AKOS BALASSA, A TOP ECONOMIST AT NATIONAL PLANNING OFFICE, POINTED OUT THAT WHILE GROSS NATIONAL INCOME WOULD INCREASE BY OVER 6 PERCENT THIS YEAR THE WORSENING TERMS OF TRADE WOULD ABSORB 3-4 PERCENT OF THIS INCREASE THUS LIMITING REAL INCREASE TO 2-3 PERCENT.

5. COMMENT: HUNGARIAN ECONOMISTS HOPE THAT REDUCTION OF CENTRAL SUBSIDIES TO IMPORTING ENTERPRISES, WHICH WILL TOTAL OVER 25 BILLION FORINTS IN 1974, WILL SLOW GROWTH IN WESTERN IMPORTS AND THUS HELP TO REDUCE CURRENT TRADE IMBALANCE BY EXPOSING HUNGARIAN INDUSTRY DIRECTLY TO HIGHER IMPORT COSTS. STEPS TO RAISE PRODUCER PRICES FOR METALLURGICAL PRODUCTS, CHEMICALS, TEXTILES, AND PETROLEUM PRODUCTS, WHICH TAKE EFFECT JAN 1 WILL NO DOUBT DAMPEN ENTERPRISE ENTHUSIASM FOR EXPENSIVE IMPORTS, AND WILL ALMOST CERTAINLY NOT BE LAST MEASURES OF THIS TYPE. YET NEEDS OF ENTERPRISES TO MODERNIZE FACILITIES IN ORDER TO UP PRODUCTIVITY LIMIT EXTENT TO WHICH INCREASES IN WESTERN IMPORTS CAN REASONABLY BE REDUCED. THUS IT SEEMS INEVITABLE THAT HUNGARIAN CONSUMERS WILL BE ASKED TO BEAR A SHARE OF THE BURDEN OF HIGHER IMPORT COSTS, AND TALK IN BUDAPEST HAS BEEN HEARD THAT IT MAY BE NECESSARY TO LIFT MAXIMUM YEARLY RISE IN CONSUMER PRICE INDEX FROM CURRENT LEVEL OF 2-2 1/2 PERCENT TO SOMETHING IN THE NEIGHBORHOOD OF 5 - 6 PERCENT BY 1976. AT THE SAME TIME, THE HUNGARIANS WILL STEP UP THEIR SEARCH FOR NEW SOURCES OF FOREIGN CREDIT WHICH WAS OBVIOUS MOTIVE BEHIND THE NATIONAL BANK'S NEW BEIRUT BRANCH AND FINANCE MINISTER FALUVEGI'S VISIT TO MIDEAST ONE WEEK AGO.  
PEDERSEN

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